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ZIMCODD Monthly Economic Review

June 2024



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ABBREVIATION LIST

CPI - Consumer Price Index

DRM - Domestic Resource Mobilization

El Nino - El Niño Southern Oscillation

GDP - Gross Domestic Product

LPG - Liquefied Petroleum Gas

MDAs - Ministries Departments and Agencies

MG - Mega Watts

MIF - Mutapa Investment Fund

MoM - Month-on-Month

OPEC -Organization of Petroleum Exporting Countries

PPG - Public and Publicly Guaranteed

RBZ - Reserve Bank of Zimbabwe

RBLs - Resource-Backed Loans

TCPL - Total Consumption Poverty Line

USD - United States Dollar

YTD - Year-to-Date

ZiG - Zimbabwe Gold

ZimStat - Zimbabwe National Statistics Agency

ZRA - Zambezi River Authority

ZWL - Zimbabwe Dollar

ZWG - Zimbabwe Gold

INTRODUCTION

In early April 2024, the Reserve Bank of Zimbabwe (RBZ) introduced a new structured currency, the Zimbabwe Gold (ZiG) to tame increased exchange rate fluctuations driving local prices haywire. Since then, a plethora of fiscal and monetary policy actions have been taken to support the local unit. As such, this June 2024 report seeks to review the general state of the economy to gauge the effectiveness of these policies implemented to date. The report will also identify economic outlook risks and provide policy alternatives to subdue these risks and stabilize the economy.

ECONOMIC OUTLOOK

- In June 2024, authorities revised the 2024 economic growth forecasts by 1.5 percentage points to 2% from 3.5% initially projected through the approved national budget.
- The revisions consider the downside impacts of the El Nino-induced drought on the economy that authorities had initially underestimated. For instance, estimates show that staple maize production in the 2023/24 season has declined roughly 70%.
- The agriculture sector remains the backbone of Zimbabwe's economy, contributing approximately 17% to national output (Gross Domestic Product- GDP), providing about 60% of industrial raw materials and

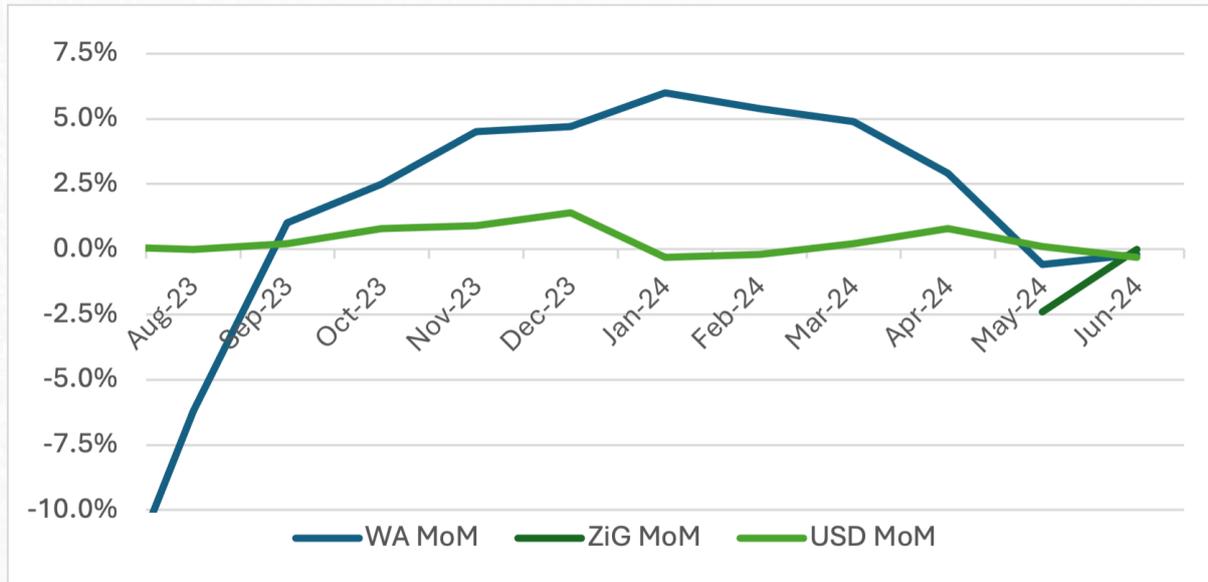
sustaining employment and income for 60-70% of the population.

- Climatic shocks have also significantly reduced dam water levels, thus constraining hydroelectricity production. The World Bank¹ estimates that prolonged load-shedding will cost Zimbabwe about 6% of its GDP.
- In addition, excessive Zimbabwe dollar (ZWL) volatility in the first quarter of 2024 has significantly constrained economic activity. Similarly, the abrupt currency changeover to ZiG has disrupted market transactions particularly in the transport sector.
- Other economic outlook risks include rapid dollarization, rising informality, debt distress, rent-seeking behaviours, rampant corruption, elevated illicit financial flows and deteriorating global geopolitics.

¹ <https://www.worldbank.org/en/news/press-release/2023/12/13/continued-reforms-to-boost-macro-economic-stability-in-afe-zimbabwe>

INFLATION

Fig 1: Month-on-Month Inflation Trends (%)

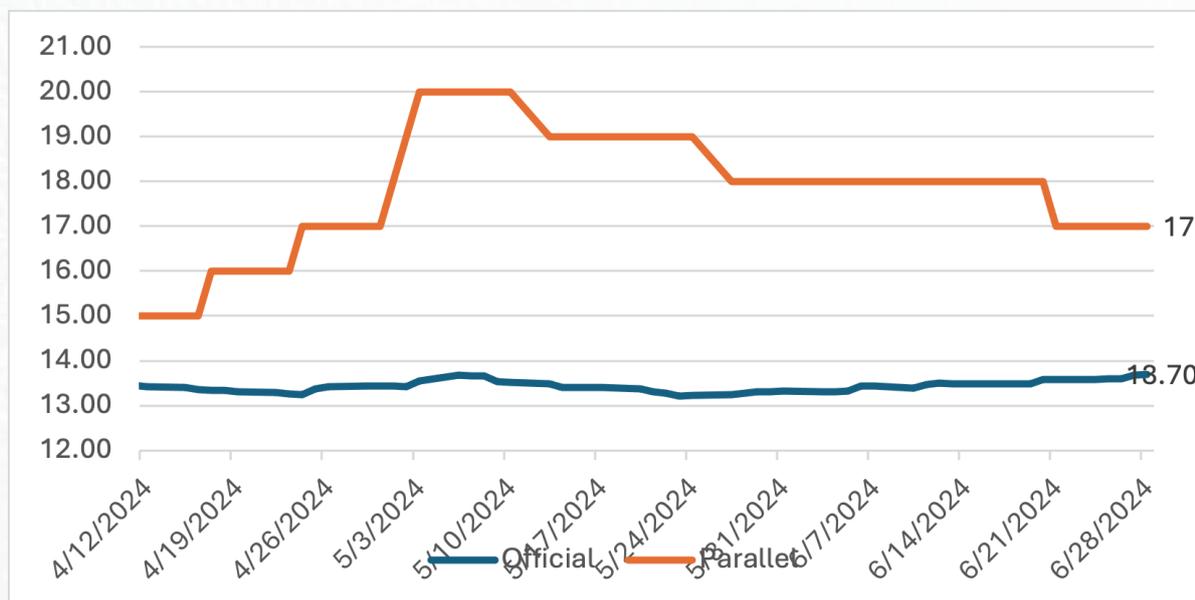


Source: Zimbabwe National Statistics Agency (ZimStat)

- Official statistics published by the Zimbabwe National Statistics Agency (ZimStat) revealed that the month-on-month (MoM) ZiG inflation rate for June 2024 was 0%.
- This means that prices, as measured by the all-items ZiG Consumer Price Index (CPI), remained constant between May 2024 and June 2024.
- With ZiG prices in formal markets being directly linked to the official exchange rate, the marginal loss of ZiG value against the USD experienced in June 2024 has not immensely impacted prices.
- In USD terms, the June 2024 MoM inflation rate was -0.3%, shedding 0.4 percentage points on the May 2024 rate of 0.1%. In annual terms, the June 2024 USD inflation rate came in at 3.8%, up from 3.5% recorded in May 2024.
- As for the blended inflation (weighted average of USD and ZWL indices), the June 2024 MoM inflation rate was -0.2%, up 0.4 percentage points from the May outturn of -0.6%.
- Overall, the ZiG's relative stability has significantly reduced fluctuations in local currency prices compared to the pre-ZiG period. If sustained, this relative stability will gradually help accumulate savings, stimulate private-sector investment, fuel consumer aggregate demand and subdue extreme poverty.
- However, there are likely downside risks in the outlook, posing great danger to the stability of ZiG prices enjoyed to date. Key among them are unsustainable debt service costs, corruption scandals and shocks from the El-Nino-induced drought, affecting staple maize availability and hydroelectricity production.

ZIG PERFORMANCE

Fig 2: Official and Unofficial Exchange Rates (ZiG/USD)



Source: Reserve Bank of Zimbabwe (RBZ), Direct Market Observations

- In the month under review, the World Bank approved Zimbabwe's request to change the local currency code from Zimbabwe Dollar (ZWL) to Zimbabwe Gold (ZWG).
- This is a critical step toward achieving full convertibility and global recognition. Over time, ZiG will be listed on international currency markets, making it tradable globally and providing monetary policy flexibility as it becomes part of the global financial framework.
- The ZiG lost roughly 3% in official markets to close June 2024 at ZiG/USD 13.70 from ZiG/USD 13.32 at the end of May 2024. It has gained roughly 5% in the parallel markets to end the month at an average of ZiG/USD 17.
- Fiscal and monetary authorities are implementing policies to support the local unit. These include the enforcement of exchange rate regulations,¹ improved inflation data transparency², tight liquidity management³, disclosure (though partial) of reserves, encouraging Ministries Departments and Agencies (MDAs) to accept ZiG for public services and settling part of customs duty and corporate taxes in ZiG among other initiatives.
- Furthermore, the ZiG's relative stability enjoyed so far likely emanates from the stellar performance of gold prices in the global markets. Generally considered a safe-haven

¹ Arrests of illegal money changers and freezing bank accounts of unscrupulous business transactions.

² Separation of USD and ZiG inflation statistics instead of publishing blended ones only as was before.

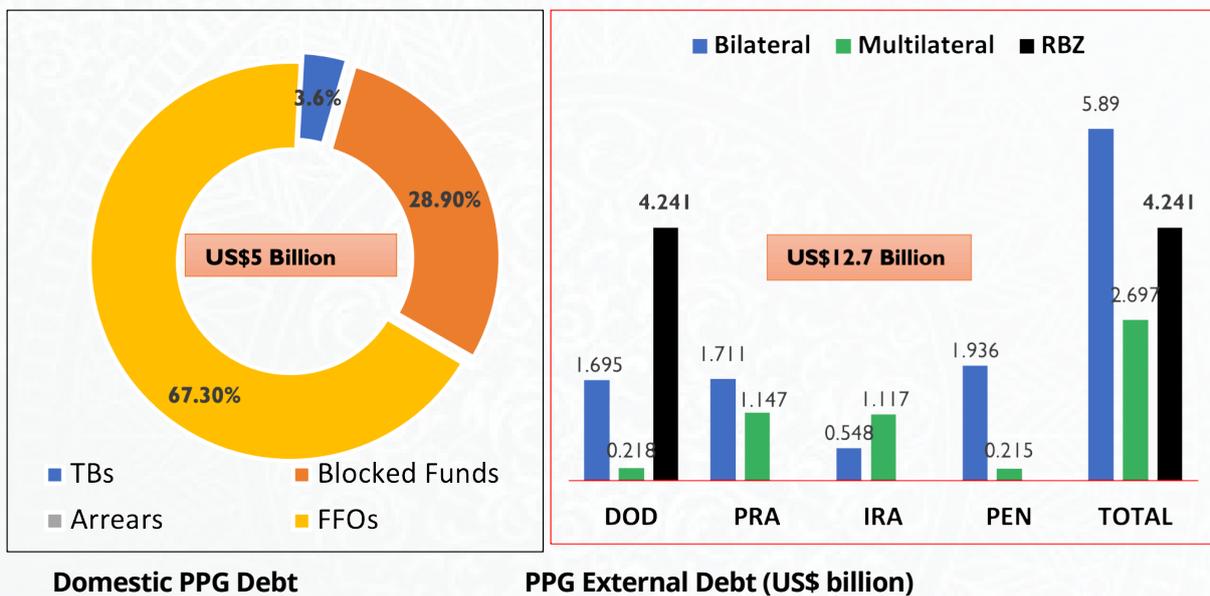
³ <https://www.imf.org/en/News/Articles/2024/06/27/pr-24248-zimbabwe-imf-staff-completes-2024-article-iv-mission>

asset, gold reserves anchor the ZiG and its global price has risen by 14% year-to-date (YTD).

- Nevertheless, authorities must address prevailing risks to maintain ZiG stability in the outlook period.
- These risks include but are not limited to, burgeoning informality, up-scaled budget-financed infrastructure spending, rapid dollarization, climatic shocks, rising public debt and debt servicing costs, subdued global mineral commodity prices, high perceived public corruption and rent-seeking behaviours.

PUBLIC DEBT SITUATION

Fig 3: Zimbabwe Public and Publicly Guaranteed (PPG) Debt



Source: Public Debt Management Office¹

- Zimbabwe’s public and publicly guaranteed (PPG) debt situation continues to deteriorate, with the latest revelations by authorities showing that debt stock has reached US\$18 billion², up 1.7% from US\$17.7 billion reported in the 2023 Public Debt Report.
- Official debt statistics are often not transparently reported, as the Treasury has reportedly³ shared varying debt stock with creditors, providing figures between US\$19.2 billion and US\$21.9 billion.
- This lack of transparency is a significant concern as it hampers the ability of economic agents and investors to accurately assess the state of public debt and make informed decisions - underlining the crucial need for transparent and reliable debt reporting.

- Authorities have admitted before Parliament⁵ that total PPG debt stock will jump as it is undergoing debt validation & reconciliation. Expected additions include US\$1.9 billion for recapitalizing the Mutapa Investment Fund (MIF) and US\$1.2 billion assumed from RBZ.
 - Consequently, debt servicing costs will balloon, jeopardizing government financial stability. This will threaten ZiG's stability and provision of critical public services like education and healthcare as more resources must be earmarked for debt servicing.
 - The PPG debt is already in distress as shown by ballooning arrears and penalties where about 74% and 81% of combined bilateral and multilateral debt are interest & principal arrears and penalties, respectively.
 - Debt unsustainability has blocked access to concessionary sources of finance to fund infrastructure developmental programs. It also sustains unsustainable extraction of natural resources through reliance on risky⁶ resource-backed loans (RBLs).
- recently reported in mainstream media and these include the US\$88 million Goat Scheme Scandal⁷ and US\$40 million Procurement Scandal.⁸
- It is commendable that oversight and accountability institutions like the Parliament and the Zimbabwe Anti-Corruption Commission (ZACC) have started investigating these corruption cases to bring culprits before the courts of law.
 - However, the monetary figures reportedly swindled by connected individuals show that public corruption is a fundamental problem for development. It harms the poor and the vulnerable, fuelling costs and subduing access to basic public services like education, healthcare, housing, water and access to justice.
 - Public corruption also worsens inequality, hindering private sector investment, undermining Zimbabwe's response to emergencies and constraining public trust in its government and public institutions.

PUBLIC CORRUPTION WATCH

- Public corruption covers a wide range of conduct and crimes involving the breach of public trust and abuse of position by government officials and their private sector accomplices.
 - Many public corruption cases involving tens of millions of USD have been
- As such, to clamp the high potential of public corruption in derailing Zimbabwe's Vision 2030, public officials and the private sector must always be guided by the principles of transparency and accountability enunciated in section 298 of the Zimbabwean constitution.

⁵ <https://www.thezimbabweemail.com/economic-analysis/zimbabwes-debt-burden-balloons-to-us18-billion/>

⁶ <https://zimcodd.org/wp-content/uploads/2024/02/Analysis-of-the-2023-Public-Debt-Report.pdf>

⁷ <https://nehandaradio.com/2024/06/20/goat-scheme-scandal-zacc-probes-us88-million-heist-involving-chimombe-and-mpofu/>

⁸ <https://zimbabweobserver.com.au/2024/06/expose-reveals-key-figures-behind-controversial-40m-zec-scandal/>

POVERTY AND INEQUALITY WATCH

- Latest ZimStat statistics show that in June 2024, an individual required about ZiG 399.83 (US\$29.18) to cover the cost of a basket of food with minimum recommended nutritional uptake⁹. This is slightly down 0.4% from the May 2024 outturn of ZiG 401.36 (US\$30.14).
- In June 2024, one person's Total Consumption Poverty Line¹⁰ (TCPL) was estimated at ZiG 623.40 (US\$45.49), slightly down 0.2% from ZiG 624.44 (US\$46.89) estimated in May 2024.
- The slight decline in the official PDL in the month under review is highly attributable to the relative ZiG stability enjoyed to date. Generally, a stable local currency subdues price growth, thus protecting the real value of income.
- While the preceding shows notable progress, extreme poverty remains rife in Zimbabwe, as highlighted in the World Bank Poverty Assessment report.¹¹ The report attributes high poverty levels to sustained macroeconomic challenges, slow structural transformation, climate shocks, the COVID-19 pandemic, and debt distress among other factors.
- For 2024, the El Nino-induced drought experienced during the 2023/24 cropping season will plunge households into food poverty.

About 1,7 million people living in urban areas are assessed to be food insecure and have been earmarked for a government-funded cash transfer, while 1.6 million vulnerable people in rural areas are set to receive grain support under the drought mitigation program.¹²

- Not only has extreme poverty increased, but inequality has grown as well. The Gini index, widely used as an inequality indicator increased from 43 in 2011 to 44 in 2017 and 50 in 2019, rating Zimbabwe highly unequal.
- High inequality is a great source of risks for business¹³. It limits productivity and has the potential to constrain consumer spending and growth, to destabilize supply chains, trigger political instability and jeopardize their social license to operate.

⁹ The Food Poverty Line (FPL) represents the amount of money an individual requires to afford a daily minimum energy intake of 2,100 calories.

¹⁰TCPL is derived by adding the non-food consumption expenditures of an individual below the FPL.

¹¹<https://documents1.worldbank.org/curated/en/099925010032212957/pdf/P1767360cd8f1f00c0b0c803c995a669a6c.pdf>

¹²<https://www.herald.co.zw/drought-relief-33-million-to-get-grain-cash-transfers/>

¹³<https://kpmg.com/xx/en/home/insights/2022/04/social-inequality-as-a-business-risk.html>

EXTERNAL TRADE

Fig 4: Zimbabwe External Trade Statistics (US\$ million)



Source: ZimStat

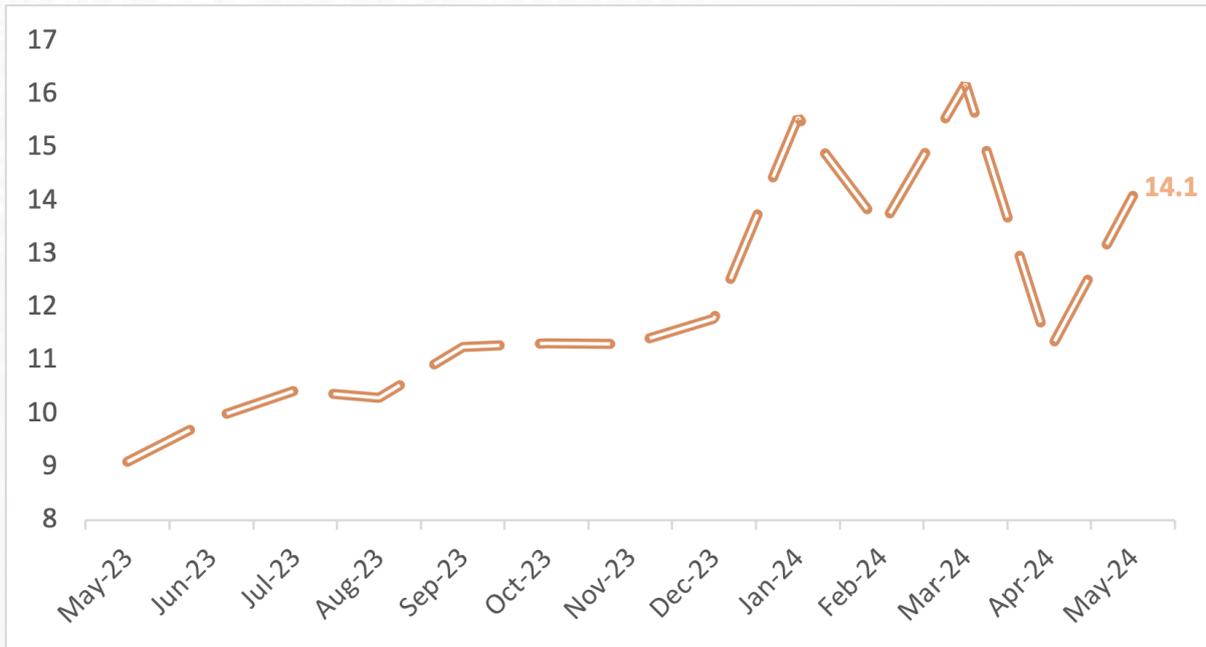
- Latest statistics from ZimStat show Zimbabwe's total exports of goods and services in May 2024 at roughly US\$583.02 million, up 13.5% from about US\$513.48 million realized in April 2024. Cumulatively, exports stood at US\$2.82 billion in the Jan-May 2024 period.
- The main exports in May 2024 were semi-manufactured gold (42.46%), nickel mattes (12.6%), nickel ores & concentrates (6.98%), other ores & concentrates (6.68%), other mineral substances (5.79%), and tobacco (4.02%).
- The statistics also show that imports of goods and services were up 3.2% to US\$734.14 million in May 2024 from US\$711.68 million in April 2024. Cumulatively, Zimbabwe imported merchandise worth US\$3.59 billion during the Jan 2024-May 2024 period.
- Top imports for the month were mineral fuels, oils & products (24.81%), boilers, machinery & mechanical appliances (11.21%), cereals (8.73%), vehicles (8.12%), electrical machinery & equipment (5.75%) and fertilizers (4.12%).
- Cumulatively, the external trade deficit (Jan-May 2024) stood at US\$777.53 million, significantly down 20.2% from US\$973.77 million in the comparable period in 2023. This is attributable to an 8.9% export growth, which countered a 0.8% growth in imports.

ENERGY

- In the month under review, the nation experienced prolonged load-shedding schedules, averaging 12 hours daily in many areas nationwide. This is crippling the domestic industry and poor households who cannot afford alternatives.

- This is because the prices of electricity substitutes such as liquefied petroleum gas (LPG) and fuel (petrol/diesel) remain highly elevated, sustained by deteriorating global geopolitics and resultant geo-economic fragmentation.
- The power shortages will also likely exert a knock-on effect on winter wheat farming, causing temporary commercial and communications disruptions, traffic congestion, banking disruptions and increasing security threats.

Fig 5: Electrical Energy Imports (US\$ million)



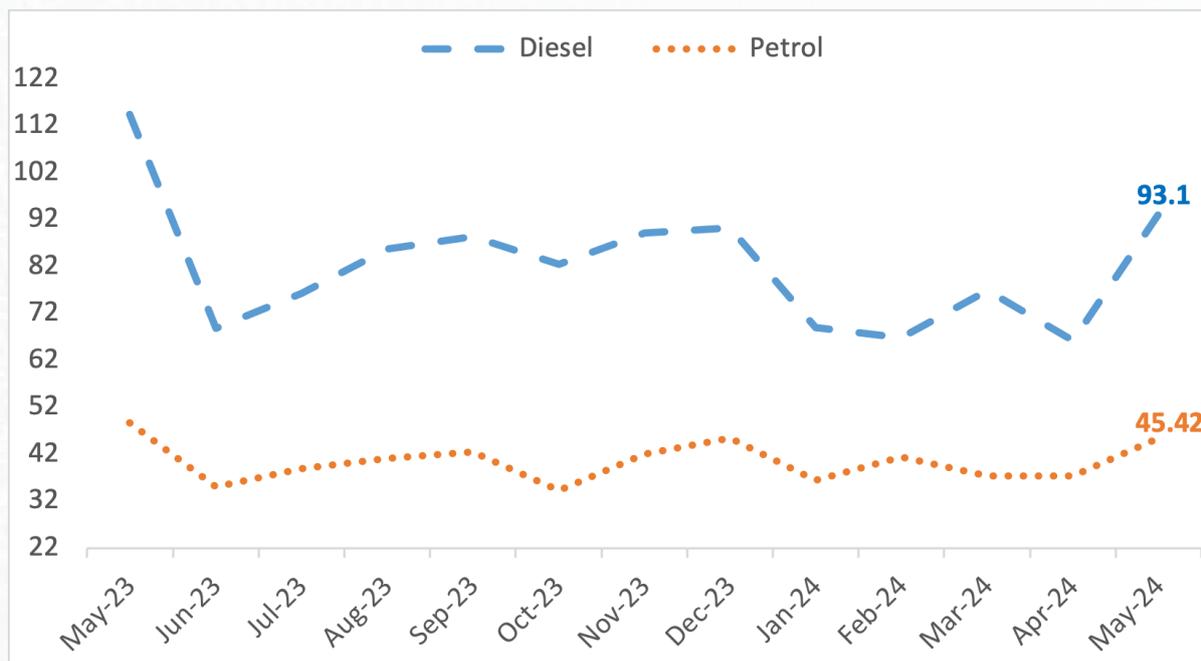
Source: ZimStat

- The electricity crisis is attributed to planned repairs and low water levels limiting production from Zimbabwe's main hydro plant in Kariba, repairs at the Hwange thermal power plant and lower imports from neighbouring countries.
- The Zambezi River Authority (ZRA) has estimated live-water levels at around 12.8% in early June 2024, compared to 29.1% in early June 2023. For Zimbabwe, hydroelectricity is critical as it accounts for at least 15% of the total primary energy supply.
- Cognizant of these electricity woes bedeviling the nation, the government seeks to intensify investments in solar power and grid expansion. For instance, in June 2024, the Cabinet reportedly approved¹⁴ a 600 Mega Watts (MG) floating solar plant on Lake Kariba, with the first phase of 150MW expected in 2025 and 300MW in 2026.

¹⁴<https://positiveeyenews.co.zw/2024/06/27/cabinet-approves-600mw-floating-solar-photovoltaic-power-plant/>

FUEL

Fig 6: Fuel Imports (US\$ million)



Source: ZimStat

- ZimStat data shows that in May 2024, Zimbabwe's diesel imports were up by a staggering 40.7% to US\$93.1 million from US\$66.2 million in April 2024. Cumulatively, the nation spent US\$372.11 million on diesel imports in the first five (5) months of 2024, slightly up 2.5% from the level realized for the same period in 2023.
- In May 2024, petrol imports were US\$45.4 million, a 21.7% jump from US\$37.3 million achieved in April 2024. Between Jan-May 2024, about US\$198 million was spent on petrol imports compared to US\$167.4 million in the same period in 2023.
- Domestic fuel pump prices have been declining. Effective 5 July 2024, diesel price per litre will be capped at US\$1.62, slightly down from US\$1.61 in June 2024, while petrol will be capped at US\$1.59, the same as in June 2024.
- In year-to-date (YTD) terms, the July 2024 diesel price per litre is down 3.6% from US\$1.68 recorded in December 2023, while the petrol price per litre is up 2.6% from US\$1.57 published in December 2023.
- The decline in domestic pump prices mimics global crude oil market developments, where global oil demand growth continues to slow due to a muted economy and accelerated adoption of clean energy in advanced economies while global oil supply is mounting after the Organization of Petroleum Exporting Countries and its allies (OPEC+) announced plans to unwind last year's extra voluntary output cuts gradually.

CONCLUSION

Since its introduction in early April 2024 through the 2024 Monetary Policy Statement, Zimbabwe Gold (ZiG) has displayed stability relative to the period before the currency

changeover. Consequently, relative currency stability is helping to subdue market price growth and slow the poverty line. If sustained by transparent and accountable fiscal liquidity management, ZiG stability will significantly help ignite industrial activity and commerce and reduce poverty and inequality.

RECOMMENDATIONS

Create ZiG Demand

Authorities must continue instituting policies that gradually increase ZiG demand in the economy. These include but are not limited to demanding that the public settle more taxes, levies, customs duties, and user fee payments in local currency.

Fiscal Discipline

Treasury must always adhere to fiscal discipline and sound public financial management to reduce money printing pressure and subdue resource leakages. It helps improve and sustain economic performance, maintain macroeconomic stability and reduce vulnerabilities.

Central Bank Transparency

The monetary authority must continue increasing transparency of its transactions and decision-making processes. This is key to stabilizing market expectations, increasing public support, and enhancing monetary policy effectiveness.

Exchange Rate Market

The exchange rate market must be deepened by fully floating the ZiG against other foreign currencies to help quickly discover its true market price. Without this, the current interbank market will remain shallow, with the RBZ as the only primary supplier of foreign exchange.

Availability of Banknotes & Coins

Authorities must ensure that the quantum of issued ZiG banknotes and coins in circulation are in sync with market demand—the rule of thumb is 10-15% of the total money supply. The availability of cash and higher denomination banknotes will increase transaction convenience for the public and reduce the prevalence of multiple exchange rates.

Debt Transparency

Authorities must improve debt transparency by reconciling, validating and reporting audited debt statistics. This will reduce corruption, allow creditors to make informed

lending decisions, facilitate investments and enable citizens to hold government accountable.

Domestic Resource Mobilization (DRM)

Treasury must reduce dependency on foreign borrowing. Embracing DRM initiatives like value chain strengthening, tax reforms and fiscal devolution will help formalize the economy, increase business investment, reduce poverty, and underpin sustainable development.

Greening the Economy

The government must invest in greening the economy, particularly the manufacturing, mining, transport, agriculture and energy sectors. This is key in promoting food security, energy independence and social equity while reducing environmental risks and scarcities.

Private Sector Integrity

There is a need for openness in the public procurement system (procedures, regulations, and institutional frameworks), competitive tenders, bidding documents, contract documents and evaluation reports. Adopting e-procurement tools can harness technology advancements to increase the accessibility and fairness of government contracting.

Openness and Civic Engagement

Citizens must have the right, and all non-state actors should have practical opportunities to participate directly in public debate and discussion over the design and implementation of fiscal and monetary policies.

Promote the Development of Alternative Energy Sources

Zimbabwe must pivot away from overreliance on fossil fuels. As such, the Treasury must maintain customs duty rebates and exemptions on green energy products like solar panels and appliances. Furthermore, sustainable tax regimes that do not compromise tax equality must be employed to upscale alternative/ green energy investments.

DISCLAIMER

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